

**CITY OF HARRISBURG**  
**EMERGENCY FINANCIAL PLAN**

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**January 2010**



**MANAGEMENT PARTNERS**  
INCORPORATED



# MANAGEMENT PARTNERS

INCORPORATED

January 25, 2010

Mr. J. Michael Casey  
Interim Business Administrator and Committee Chair  
City of Harrisburg  
Early Intervention Program Committee  
The Martin L. King Jr. City Government Center  
10 North Second Street, Suite 304  
Harrisburg, PA 17101

Dear Mr. Casey and Members of the Committee:

The scope of Management Partners' contract with the City of Harrisburg for an Early Intervention Program (EIP) Financial and Operational Analysis calls for us to determine whether in our professional judgment, the City is in a state of financial crisis. As you are aware, our project status report to the City's EIP Committee on December 18, 2009 concluded that we believe that a state of fiscal crisis does exist. Accordingly, we are submitting this Emergency Plan to address the financial crisis of the City.

The fiscal situation is caused by the debt obligations resulting from the City's Refuse Recycling Facility (RRF), the drastic downturn in current economic conditions and institutional financial conditions. In developing the Emergency Plan, we considered three primary subject areas that we believe the City must address to resolve its financial issues: obligations for debt service, cash management, and structural financial issues.

This report includes recommended actions that address the three subject areas and provides a detailed action schedule. We need to emphasize that the various recommendations are not alternatives or a menu of options from which the City can choose. It is our professional judgment that all of the recommended actions must be considered essential elements of the whole Emergency Plan, and undertaken. The City will not be able to resolve its financial crisis if it does not implement this plan. Even so, the uncertainty of current economic conditions will remain.

We are prepared to discuss this plan and its recommendations with you and the EIP Committee at your convenience. Further, please rest assured that as part of our commitment to the City of Harrisburg, Management Partners stands ready to assist with the implementation of this plan.

Sincerely,

Gerald E. Newfarmer  
President and CEO

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## **BACKGROUND**

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The City of Harrisburg received a grant from the Commonwealth of Pennsylvania under the auspices of the Early Intervention Program (EIP) to perform a financial analysis and management audit of its operations. Harrisburg selected Management Partners to conduct the analysis and audit. Management Partners began work on the project in October 2009 and submitted an interim progress report on December 18, 2009.

Our interim progress report expressed the opinion that the City of Harrisburg is in a state of financial crisis. This is due primarily to the short-term inability to make debt service payments guaranteed by the City for The Harrisburg Authority's (THA) Resource Recovery Facility (RRF) and other institutional financial issues.

The scope of work for the EIP project calls for Management Partners to prepare an emergency financial plan for Harrisburg if we determine that a financial emergency exists. This report meets that commitment and sets forth an emergency financial plan for consideration and adoption by the City of Harrisburg. In developing this report, we considered three primary subject areas: the City's obligations for debt service, cash management, and structural financial issues.

### **Financial Emergency Overview**

Management Partners' analysis of the City's financial circumstances indicates that the total financial deficit over the next five years is approximately \$164 million, of which \$144.8 million is debt service and \$19.2 million is General Fund operations. Of the debt service obligation, \$68.7 million is due for payment in 2010 and the remaining amount is due between 2011 and 2015. Of the \$68.7 million of debt service due in 2010, \$16.8 million is due over the course of the first six months of 2010. Attachment A to this report shows detailed information on RRF debt service payments due in 2010. Attachment B shows the projected General Fund cumulative deficit for the period from 2011 to 2015.

The proposed 2010 budget submitted to the City Council in November 2009 includes a plan to meet 2010 debt service guarantees for the RRF primarily by sale or long-term lease of City owned assets such as City parking facilities, City Island, Broad Street Market and the RRF itself. The 2010 Proposed Budget also recommends increasing fees and

restructuring/refinancing debt as steps for meeting 2010 debt service guarantee obligations.

While the actions proposed in the Mayor's 2010 Proposed Budget are certainly steps that should be examined for viability, they will not generate the cash needed in the first six months of 2010 to make debt service guarantee payments. City staff told Management Partners that market value appraisals of assets have not been prepared. Consequently, evidence of value and the amount that might be realized for paying down debt by sale/lease of assets is a ballpark estimate at best. It will take several months just to establish market value for any potential asset sales/leases. After appraisals have been completed, it will take several more months to structure sale/lease proposals, entertain competitive responses, negotiate final agreements and close on the sale/lease. It is extremely unlikely that Harrisburg would actually realize sufficient proceeds from asset sales/leases during the first six months of 2010.

Similarly, restructuring/refinancing of City debt will require more time than available to provide a solution. Harrisburg has already experienced technical default on a number of RRF guarantee issues. Therefore, it is not likely that debt restructuring/refinancing could be accomplished without a comprehensive plan that would indicate to capital markets the capacity and commitment for paying the restructured/refinanced debt service.

In short, the 2010 Proposed Budget does not contain solutions that are viable for addressing the immediate (first six months of 2010) financial issues facing Harrisburg.

Management Partners learned during the course of the project that Harrisburg's practice has been to project cash flow one month ahead. For example, revenue and expenses for February are projected in January but March revenue and expenses are not projected until February. There is no month-by-month cash flow model for the entire twelve-month period. Absent such information, Management Partners could not determine whether, for example, there would be sufficient cash available in February 2010 to carryout ongoing operations and services and also pay the \$3.2 million of RRF debt service guarantees due on February 1, 2010. Management Partners requested an annual 2010 cash flow projection on a month-by-month basis in early December and provided a template for the cash flow report. As this report is being prepared, City staff are working to produce the needed cash flow projection for 2010.

In addition to the debt service aspects of the financial emergency, Harrisburg also faces a General Fund structural deficit. While Mayor Reed's 2010 Proposed Budget was submitted as a balanced budget, the financial analysis performed by Management Partners indicates that its adoption as submitted would result in a deficit of approximately \$1.6 million in 2011, as well as a cumulative \$19.2 million deficit between 2011 and 2015. In addition to the projected deficit, the 2010 Proposed Budget

includes no provision for a multi-year capital equipment replacement program or a multi-year capital infrastructure repair/replacement program; two financial plan elements that are requirements for a stable financial situation. Eliminating projected deficits beyond 2010 and making appropriate provisions for capital equipment and infrastructure replacements/repairs should be objectives for the City Council when it reopens consideration of the 2010 budget.

## **Financial Emergency Plan Objectives**

This recommended financial emergency plan incorporates the following objectives:

- Put Harrisburg on a timely path to financial stability by:
  - Reducing debt,
  - Rebuilding reserves,
  - Eliminating the General Fund structural deficit, and
  - Developing multi-year capital equipment and infrastructure replacement/ repair programs.
- Develop interim relief measures to defer/reduce payment of RRF debt service guarantees until November, 2010.
- Meet RRF debt service payments of approximately \$33 million and pay off or refinance \$34 million of debt that will become due in December of 2010.



## **EMERGENCY PLAN ELEMENTS**

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The current financial emergency has developed over an extended period of time. While its primary driver is the debt associated with the RRF project, the sharp contraction of municipal revenue associated with the downturn in the economy and the continued relatively high level of City spending on services also contributes to the City's precarious fiscal position.

There are three components to this recommended Emergency Plan.

- **Debt service:** Strategies to meet the City's debt obligations and to make debt service more manageable as an important element of sustainable financial management. This is essential if the City is to recover its financial strength, deliver future services and maintain its capital infrastructure.
- **Cash management:** Strategies to improve the City's cash position both in the short term and over time. Effective management of the City's cash flow is critical to its ability to pay its debt obligations while maintaining its ability to provide public services.
- **Structural finance:** Strategies to eliminate annual operational practices and costs that contribute to a prospective long-term operating deficit. While the debt obligations of the City are the primary financial driver, our review of the City's finances has identified other financial and operational constraints that will worsen if not addressed as part of the overall emergency plan.

Together, these three components contribute to the City's fiscal crisis. To resolve the crisis, the City must address all three. Failure to resolve any one of the three will prevent resolution of the other two.

There are a number of actions that the Mayor and City Council must take to address this crisis. Some of these actions are reform in nature, implementing best practices in use by other cities. Many require significant change to the status quo and the accustomed manner of doing business in an unthreatened environment. The threat of financial ruin is real and present. Every action in this plan is a step that must be part of the overall plan to respond to the emergency and restore the financial health of the municipal corporation. It is our recommendation that every action in this plan be implemented.



## Cash Management

### Develop a Monthly Cash Flow Model

The City is obligated to make nearly \$16.8 million in RRF debt service guarantee payments by June 1, 2010. It is not apparent from the 2010 Proposed Budget that the City will be able to maintain current operations and meet its debt service obligations in early 2010. It is likely that the City will have to negotiate a “workout” plan with other stakeholders of RRF debt, including Dauphin County, the bond insurance vendor and bond holder trustees.

To determine how much cash the City will have available to make RRF debt service payments, a month-by-month cash flow analysis needs to be prepared for each month of 2010. The results of the cash flow analysis will be used to guide discussions with Dauphin County, the RRF bond insurance vendor, bond trustees and others on how much of the debt service payments the City can maintain on a current basis. The cash flow model needs to be completed by January 22, 2010 to be available to also guide City Council’s decisions regarding adoption of a final 2010 Operating Budget. City Council will, as it has on other occasions in the past, reopen its review of the 2010 Budget with adoption scheduled no later than February 15, 2010. The cash flow model must be monitored by the City administration on a continuing basis with adjustments made and reported to City Council as well as other stakeholders through regular monthly reports.

### Pre-pay Utility Charges

The 2010 Proposed General Fund Budget includes the payments (shown in Table 1) from utility funds to the General Fund for administrative charges and other services.

**TABLE 1: PAYMENTS FOR ADMINISTRATIVE CHARGES AND OTHER SERVICES**

Water Utility	\$5,232,783
Sanitation Fund	\$ 957,745
Sewerage Utility	\$7,275,386
Sewer Maintenance Charges	\$1,000,000
Coordinated Parking Agreement	\$4,500,000
Sanitation Utility Fund	\$1,295,703
TOTAL	\$20,261,617

None of these resources are earmarked for RRF debt service payments. However, if asset sales/leases are eventually approved by City Council and proceeds from such arrangements become available later in the year, pre-payments from these sources to the General Fund could be used to temporarily support RRF debt service payments. The cash position of each of these funds must be examined to determine how much of the 2010 budgeted payments can be pre-paid and on what schedule such pre-payments can be made. This is dependent on a cash flow analysis of THA and the Parking Authority, followed by a specific determination

between the City and Authorities that the transfers will occur in a timely fashion. The feasible pre-payment schedule results should be used in conjunction with the cash flow model to determine how much, if any, of these resources can be used to temporarily fund RRF debt service guarantees.

The pre-payment of utility charges should be accomplished by February 1, 2010.

### **Defer 2010 Capital Expenditures**

The 2010 budget includes various capital expenses. In many cases, such expenses represent significant outlays of cash. As has been amply demonstrated, the City faces not only a deficit situation in 2010, but also a potential cash flow crunch in the first six months of 2010.

Deferring planned capital expenses, other than those entirely funded by external grant funds, will generate the maximum amount of cash available to satisfy current operating expenses and debt service payments. Planned 2010 capital expenses should be identified specifically and removed from the cash flow model. As cash flow is monitored throughout the course of the first six months of 2010, capital expenses may be considered for funding in the context of the adopted emergency financial plan. The only exception to this recommendation would be capital expenses, which are absolutely essential to the continued operation of a given service.

## **Debt Management**

### **Allocate 2009 Carryover Balance to 2010 Debt Service Payments**

The 2010 Proposed Budget includes approximately \$2.8 million of one-time resources as a result of a 2009 carryover balance. The Proposed Budget allocates those funds for ongoing service costs. It is contrary to best practice to allocate one-time resources to fund ongoing costs. While it has been true in the past that there is normally a carryover balance each year, the financial projection going forward for 2011 through 2015 indicates an annual deficit. In that condition, there is no expectation of an annual carryover balance. Consequently, allocating the 2009 carryover balance to fund ongoing expenses in 2010 contributes to the growing annual deficit in the period 2011 through 2015.

Given that the City's inability to make debt service payment in early 2010 is of immediate concern, allocating the 2009 carryover balance toward 2010 debt service payments is not only a prudent course of action, it would also stand as a sign of good faith to other RRF stakeholders of the City's intention to take all appropriate actions for satisfying its guarantees.

The City Council should consider this step in its reopened deliberations on the 2010 Budget and approve such an allocation no later than

February 15, 2010, the scheduled date for adoption of the final 2010 Budget.

### **Obtain City Asset Appraisals to Determine Market Value**

Given the sheer magnitude of debt service due on the RRF it is a virtual certainty that asset sales/leases will be one of the actions necessary to bring Harrisburg to a condition of financial stability. Another consideration is that it has been reported to Management Partners that due to the magnitude of RRF debt, when combined with other Harrisburg debt levels, the City has no capacity for issuing debt other than self-liquidating debt (revenue bonds). It appears that unless outstanding debt is reduced, the City will have no general obligation debt capacity through at least 2015.

There is no reliable information readily available regarding the market value of various City assets. In order to proceed in an orderly fashion to determine what, if any, City assets could be sold/leased at what terms, market value appraisals are needed for those assets that appear to have market value (i.e., an income stream associated with operations/ownership).

City Council should fund the development of market value appraisals for identified City assets in its development of the 2010 Budget. Once funding is approved, staff should immediately commence hiring appropriate vendors to develop market value appraisals for the identified City assets. At a minimum, this analysis should include:

- Parking facilities
- City Island, including all sports facilities
- Broad Street Market
- Water utility and systems
- Land under parking facilities
- Sewerage utility and systems
- Resource Recovery Facility
- City owned museums
- Historic artifacts

In order to close on the sale/lease of assets and realize proceeds from the transaction to satisfy 2010 debt service guarantee requirements, the target date for closing on such sales/leases should be November 1, 2010. Attachment A shows the timing for 2010 RRF debt service payments. Given that closing date target, appraisals should be completed by March 31, 2010.

### **Defer Debt Service Reserve Payments and Arrange for Interim Debt Service Payments**

Bonds issued by THA for the RRF in 2002 and 2003 include various provisions for funding of debt service reserves. It has been reported to Management Partners that those reserves have been depleted and must now be refunded on a monthly basis beginning in January 2010 (As

indicated above, Attachment A shows the debt service reserve refunding schedule.).

Of the \$33 million in RRF debt service guarantee payments due in 2010, nearly \$11.7 million is for refunding of debt service reserves. If refunding debt service reserves could be largely deferred until asset sales/leases are completed later in 2010, the City's cash flow crunch in 2010 could be eased by over \$10 million. That would defer 90% of debt service reserve payments due during the course of January through November of 2010 until December 2010. The objective is that by December 1, 2010 appropriate asset sales/leases will have been consummated and proceeds realized to satisfy 2010 debt service obligations, refinance or pay off \$34 million of debt due on December 1, 2010, reduce future debt service obligations, and repay RRF bond stakeholders as necessary. The City should strive to make a monthly payment of 10% of debt service reserve payments due as a sign of good faith.

The City, working with its bond counsel, will need to undertake negotiations with its bond insurer and bond trustees to effect this deferral. Dauphin County should also be included in the discussions and be a party to revised agreements.

Dauphin County is a backup guarantor of \$54 million of RRF debt service due in 2010. All of the RRF debt service due in 2010 is also insured by a private vendor. And the payment of the prescribed amounts is monitored by trustees for the bond holders. Upon adoption of the 2010 Budget and approval of the emergency financial plan by City Council, the City must begin discussing the outcomes and financial impact of those decisions with representatives of those RRF bond stakeholders. Those discussions should have the following objectives:

- Dauphin County would fulfill its backup guarantor role in 2010 while the City engages in asset sales/leases to repay the County for its interim financing.
- The bond insurer would fulfill its insurance obligations in 2010 while the City engages in asset sales/leases to repay the insurer for its interim financing.
- The bond trustees would agree to defer monthly payments into debt service reserve funds by 90%, until December 31, 2010 while the City engages in asset sales/leases to generate the proceeds for debt service reserve payments.

The City should meet with RRF bond stakeholders, including Dauphin County, the bond insurance vendor, and bond holder trustees to review the entire emergency plan. Such discussions should begin no later than February 15, 2010 and sooner if possible.

### **Examine Resource Recovery Facility Ownership**

The 2010 Proposed Budget includes a recommendation to negotiate a lease-purchase agreement with Covanta, the operator of the RRF. The

RRF plays a significant role in Harrisburg's current state of financial distress and all options regarding ownership and operation of the RRF must be examined closely. While we do not have sufficient information to determine if this is a viable recommendation, we do believe that the City should examine this option in detail.

A compressed time frame is necessary because of the pivotal role the RRF plays in the overall financial position of Harrisburg. It needs to be quickly determined whether an agreement regarding RRF ownership holds promise in stabilizing Harrisburg's financial status. For example, the disposition of other City assets, such as parking facilities, will be a function of whether or not a different ownership/operations arrangement for the RRF would make a significant impact on reducing debt obligations.

The first step is to get a market value appraisal of the RRF as recommended earlier in this report. Assuming the appraisal can be completed by March 31, negotiations with Covanta Harrisburg, Inc. (the firm providing operations and maintenance for the RRF) should begin shortly thereafter (by April 7) and concluded promptly, by May 7.

This is not to suggest that all legal actions must be concluded in thirty days, as that is not likely. What is needed quickly is an estimate of how much, if any, of Harrisburg's 2010 financial emergency would be alleviated by an agreement with Covanta. Nor is this to suggest that the City and THA should be willing to take whatever offer Covanta may be prepared to make. If negotiations with Covanta and the potential structure of an agreement appear promising, a resolution of intent to enter into an agreement that includes specified conditions could be adopted and negotiations to complete a transaction could proceed.

### **Determine the Potential to Sell or Lease City Assets**

By June 1, 2010 more information will be available regarding the potential for sale/lease of the RRF and the financial impact that might have on the long-term debt obligations of the City. The financial analysis and management audit of THA should be completed. The market value appraisals of various City assets should be in hand. An updated financial projection based on the adopted 2010 General Fund budget will be completed. This new set of information will position the Mayor and City Council to make a determination about which, if any, City assets must be sold/leased in order to reduce the long term debt obligations of the City for the RRF.

If it is decided that City assets must be sold/leased to meet debt obligations and achieve financial stability, requests for proposals (RFPs) must be prepared promptly for those assets specified for sale/lease. RFPs should be published no later than the third week of June with responses due by July 31, 2010. Responses should be reviewed promptly and selection of preferred offers completed by September 1, 2010. Final agreements will need to be prepared and executed by October 1, 2010 with closing and payment of sale/lease proceeds completed by November 1, 2010.

Repayment of interim RRF debt service guarantee payments made by Dauphin County and the bond insurance vendor should occur promptly following closing, no later than November 15, 2010.

### **Pay Off or Refinance RRF Working Capital Loan**

The \$34 million working capital loan for the RRF becomes due and payable on December 1, 2010. The objective of this Emergency Plan is to either pay off or refinance this loan. Paying off the loan is most likely to be achieved from City asset sale/lease proceeds or renegotiated in the context of an agreement with Covanta on ownership/operation of the RRF. Refinancing of the loan would require that replacement debt be issued. Replacement debt is only possible if Harrisburg is able to satisfy capital markets that: it has made good on its 2010 RRF obligations, it has long-term financial stability, and underlying RRF operations are financially viable.

The decision between paying off or refinancing will be a function of factors whose outcomes are currently unknown. The potential proceeds from assets sales, a potential agreement with Covanta, the cost of competing capital investment needs, and Harrisburg's bond rating, are some of the matters that must be weighed in deciding the appropriate course of action regarding the working capital loan. Harrisburg must begin assimilating information on these factors throughout the year and begin specific analysis of its options at least ninety days before the due and payable date of the working capital loan. Preparation will no doubt include meetings with bond rating agencies to demonstrate Harrisburg's progress toward financial stability and the detailed plan and schedule for achieving that status.

Addressing the matter of the working capital loan is the final piece of the financial emergency puzzle and has the longest lead time for solving. It is also the single largest factor that must be overcome and has the greatest risk, relying as it does on the tight schedule for asset sale/lease proceeds being available or a favorable capital market view of Harrisburg's recovery. So, while not imminent, this matter looms large in the emergency plan fabric and must not be downplayed because it is indeed the most difficult.

## **Structural Financial Management**

### **Maintain Current Staffing Levels**

The 2010 Proposed Budget includes increased staffing levels in several City agencies funded by the General Fund. Management Partners projects that funding the 2010 Proposed Budget level in the years 2011 to 2015 will create a cumulative deficit of \$19.2 million.

City Council will reopen consideration of the 2010 Budget. Given the structural deficit in the General Fund in the year 2010 and beyond, as well

as stagnating revenues and increasing personnel costs, staffing increases included in the 2010 Budget are not sustainable and should be eliminated. There are two qualifications to this recommendation: positions which are essential to operation of the City and/or positions that are funded entirely by external sources for an indefinite period of time should be considered on their merits.

The Mayor and City Council should strongly consider this policy position during its reopened review of the 2010 Budget. Adoption of this policy position would also serve as another indication of good faith by the City to RRF bond stakeholders of its intention to quickly achieve a position of financial stability.

### **Cap General Fund Spending**

Administratively, the City needs to do what is necessary to assure cash flow and also to demonstrate good faith to RRF bond holders and stakeholders. One step to achieving this outcome is to control expenses. The City should aim to limit 2010 General Fund expenses to no more than 20% of the approved budget in the first quarter of the year and no more than 45% through the second quarter. This would create a “cushion” of approximately \$1.5 million in the 2010 budget, should it become necessary to adjust expenditure levels later in the year. It would also enhance the cash flow position of the City during the first six months of the year.

### **Implement EIP Management Audit Recommendations**

The management audit carried out as an element of the early intervention study recommends actions that would reduce costs by as much as \$4.0 to \$5.5 million per year. Implementation of the recommendations would nearly eliminate the projected cumulative General Fund deficit.

Implementation of several of the management audit recommendations will take many months to finalize. Several will require significant changes in public policy and others will require changes to existing collective bargaining agreements. Therefore, realizing the full financial impact of the audit recommendations will most likely not be felt until 2011.

The Mayor and City Council should carefully consider the EIP management audit draft recommendations when the 2010 Proposed Budget is revisited. During that review, City Council should consider not only the need to eliminate the structural cumulative deficit, but also the need to rebuild reserves to a minimum of 5% of the General Fund Budget (approximately \$3 million), the need to fund capital equipment replacement and a multi-year capital improvement program in the future, and a policy regarding wage adjustments for employees.

In addition to the recommendations incorporated in the management audit, other actions that the City Council should consider in finalizing the 2010 Budget are itemized in Attachment C to this report.

### **Study Fee Structures**

The City charges fees for services such as issuing building permits, providing buyer notification and police services. It is considered sound financial practice to base the fee structure on an articulated policy that includes a target for recovering actual costs incurred in providing the service. In the case of some fees, such as building permit fees, the target for cost recovery should be 100%. Some others, such as recreation activities, might have a cost recovery target of less than 100% to provide greater affordability for residents.

The City has a limited policy on recovering costs for direct services where cost recovery is appropriate. Implementing a cost recovery policy through user fees requires development of a formula for isolating variables for each of the fees charged and then assigning a cost recovery factor to each of the fees. This methodology can then be replicated for each budget cycle to assure that fee structures are updated to account for current costs of services, such as increases in employee salaries and benefits.

The City should commission the development of a fee study and model in 2010. This would allow the model to be applied to future year revenue estimates to assure that fees are maintained at appropriate cost recovery levels.

### **Update 2011 to 2015 Financial Projection**

The General Fund financial projection prepared by Management Partners is based on the 2010 Proposed Budget submitted by the Mayor in November, 2010. As noted, projecting that budget through the period 2010 to 2015 would lead to a cumulative deficit of \$19.2 million. The financial model developed as an element of this project will allow for City Council to see on a real-time basis the financial impact of the decisions it is considering as it reviews the 2010 Proposed Budget. Following the conclusion of City Council's 2010 Budget review, the financial model will be totally updated to reflect the financial impact of Council's decisions.

### **Conduct a Financial Analysis and Management Audit of The Harrisburg Authority**

The Harrisburg Authority is the nominal owner of many assets that are inextricably entwined with the City's long-term financial stability. The water and sewer utilities generate approximately \$14 million a year in General Fund revenue, nearly 23% of total General Fund income. The RRF utility has over \$280 million of debt guaranteed by the City. While the financial analysis and management audit of City operations has been a critical step in identifying the path to financial stability for the City, it is clear that the same examination is needed of The Harrisburg Authority. The future health and viability of utility operations under The Harrisburg Authority will have a profound impact on the future health and viability of the City of Harrisburg.



Since there is such great reliance on The Harrisburg Authority utility operations by the City of Harrisburg, Management Partners asked for long-term analyses of financial and business plans of THA. Based on that request, THA did prepare a five-year projection for the RRF. However, for the purposes of our analysis, Management Partners was unable to conduct a thorough review and evaluation of the projection. THA should be subjected to the same rigorous examination that the City of Harrisburg has undertaken with the Early Intervention Program, not just for the RRF but also for the water and sewer utilities.

The City Council should direct that a financial analysis and management audit of utilities owned by THA be prepared. Such a project should be initiated no later than March 1 and completed by June 1, 2010.

In addition, the Council should direct that THA provide a detailed cash flow analysis, relative to our recommendations regarding fund transfers, or provide that an analysis be conducted on behalf of THA. The timing of this study should be consistent with the overall cash flow analysis currently being conducted by the City.

### **Re-examine Labor Agreements**

Salary and benefits cost factors are the major components that will drive General Fund expenses during 2011 through 2015. As City policy-makers take action on the hard decisions set forth in this Emergency Plan, they must reconsider the increase in service costs that have been built into the labor contracts. The City currently has agreements with labor unions that include the schedule of wage increases listed below.

- Police: 4% in 2011 and 3% each year through 2015
- Fire: 3% in 2011, 4% in 2012, 3% in 2013 - 2016
- AFSCME: 4% in 2011, 3% in 2012 - 2014

Freezing wages at 2009 levels would save approximately \$13 million from now until 2015. This number needs to be compared to the projected \$19.2 million cumulative General Fund deficit during that period of time. Other factors, such as the recommendations of the EIP management audit, could play a role in reducing the General Fund structural deficit. After City Council has adopted a 2010 Budget, the General Fund financial projection will be recalculated based on Council's actions. This will give an indication of how critical it is to return to the bargaining table with labor groups. Should it be deemed necessary, labor bargaining should be targeted for completion by September 1, 2010.

### **Develop a Multi-year Capital Plan**

Harrisburg should have a multi-year plan that identifies needed infrastructure replacements and a schedule for replacing capital equipment. Such a plan is essential for comprehensive financial planning and is a critical element on the path to financial stability. By June 1, 2010 preparation of a capital plan must begin using instructions and a format that incorporate sound capital budgeting techniques. Review of capital

budget requests should take place in August with the target of completing a multi-year capital plan by September 1, 2010. Following this schedule will assure that planning for Harrisburg's capital needs will be an integral element of preparing the 2011 Budget.

**Prepare 2011 Balanced Budget and Update Financial Projection**

The culmination of successful application of the emergency financial plan set forth in this report will be submission of a 2011 Proposed Budget by the Mayor to the City Council, with an updated financial projection that demonstrates Harrisburg is on the path toward financial stability. That will mean that Harrisburg has successfully navigated the 2010 financial emergency and has agreed upon and approved the actions necessary to achieve financial stability in a reasonable period of time.



## **FINANCIAL EMERGENCY ACTION SUMMARY AND SCHEDULE**

This Emergency Plan consists of many different actions to address the three components of the City's fiscal emergency. To become fiscally solvent and in a position to sustain itself in the years ahead, the City needs to implement all of these recommendations. We recognize, though, that the City cannot do everything at once, that various actions will require different time frames for completion. Therefore, we present Table 2 as a recommended guide for timing the various steps requiring the City's action.

**TABLE 2: RECOMMENDED ACTIONS AND TIMING**

	<b>Action Summary</b>	<b>Schedule 2010</b>
<b>1</b>	Develop a monthly consolidated general fund/debt service fund cash flow model for the year 2010, and a monthly cash flow model for THA.	<b>January 22</b>
<b>2</b>	Pre-pay all 2010 budgeted water, sewer and parking utilities administrative charges due to the General Fund in accordance with cash flow requirements set forth in the cash flow model.	<b>February 1</b>
<b>3</b>	Make arrangements for short-term adjustments to support long-term solutions: <ul style="list-style-type: none"> <li>o Allocate 2009 carryover balance of \$2.8 million of RRF debt service guarantees.</li> <li>o Make no increases in city staffing.</li> <li>o Defer capital expenditures that are not financed entirely by external resources.</li> <li>o Cap General Fund spending during the first quarter of 2010 at 20% of the total 2010 adopted budget, with the exception of debt service.</li> <li>o Incorporate management audit recommendations into approved 2010 budget.</li> <li>o Authorize study of city imposed fee structure and development of a fee setting model.</li> </ul>	<b>February 11</b>
<b>4</b>	Update financial model to incorporate revised 2010 budget decisions.	<b>February 15</b>

	<b>Action Summary</b>	<b>Schedule 2010</b>
<b>5</b>	Arrange for market value appraisals to be completed by March 31 for the following City owned assets: <ul style="list-style-type: none"> <li>o Parking facilities</li> <li>o City Island, including all sports facilities</li> <li>o Broad Street Market</li> <li>o Water Utility</li> <li>o Land under parking facilities</li> <li>o Sewerage Utility</li> <li>o Resource Recovery Facility</li> <li>o City owned museums</li> <li>o Historic artifacts</li> </ul>	<b>February 15</b>
<b>6</b>	Begin reviewing emergency financial plan with Dauphin County and arrange for County to make its debt service guarantee payments consistent with the cash flow model.	<b>February 15</b>
<b>7</b>	Begin reviewing emergency financial plan with RRF bond insurance vendor and arrange for bond insurer to make City's direct debt service guarantee payments consistent with the cash flow model.	<b>February 15</b>
<b>8</b>	Begin reviewing emergency financial plan with bond holder trustees.	<b>February 15</b>
<b>9</b>	Negotiate a 90% deferral of monthly refunding of RRF debt service reserves with the balance to be paid no later than December 31, 2010.	<b>February 28</b>
<b>10</b>	Initiate financial analysis and management audit of The Harrisburg Authority.	<b>March 1</b>
<b>11</b>	Begin negotiations with Covanta for long-term lease/sale of RRF and conclude negotiations by May 7, 2010.	<b>April 7</b>
<b>12</b>	Reopen bargaining with labor unions for long term agreements.	<b>May 1</b>
<b>13</b>	Identify City assets for sale/lease.	<b>June 1</b>
<b>14</b>	Begin preparation of multi-year capital plan and budget to be concluded by September 30, 2010.	<b>June 1</b>
<b>15</b>	Receive proposals for sale/lease of City assets.	<b>July 31</b>
<b>16</b>	Select preferred proposals for sale/lease of City assets.	<b>September 1</b>
<b>17</b>	Close on sale/lease of assets.	<b>November 1</b>
<b>18</b>	Repay Dauphin County and bond insurer for earlier debt service guarantee payments made.	<b>November 15</b>
<b>19</b>	Refinance or payoff \$34 million RRF debt obligation.	<b>December 1</b>
<b>20</b>	Submit 2011 Proposed Budget, updated financial projection for 2011 to 2015, and multi-year capital plan to City Council.	<b>December 1</b>
<b>21</b>	As a fundamental component of the 2011 proposed budget, consider and propose alternative revenue sources or commensurate expenditure reductions that equal or exceed operating transfers lost through City asset disposal.	<b>December 1</b>

## **CONCLUSION**

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The City of Harrisburg will need to address unusually difficult issues in implementing this Emergency Plan. This cannot be a time for business as usual.

There are many City stakeholders who will be disadvantaged by the hard changes that City policy-makers must implement in order to put the City on sound financial footing. The only good news is that as hard as the decisions to 'right the ship' will be, they are one-time in nature.

Once they are implemented all of the stakeholders – citizens, employees, leaders, vendors and volunteers – will be in a position to move the City of Harrisburg forward with the knowledge that they do so from a solid position of financial and organizational stability, free to be creative and innovative in making the City an even better place to live.









## **ATTACHMENT B: GENERAL FUND FINANCIAL FORECAST 2011 TO 2015**

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	<b>2011 Forecast</b>	<b>2012 Forecast</b>	<b>2013 Forecast</b>	<b>2014 Forecast</b>	<b>2015 Forecast</b>
<b>Revenue</b>	\$60,628,812	\$60,809,927	\$60,520,698	\$60,829,097	\$61,153,724
<b>Expenses</b>	\$62,305,030	\$63,467,842	\$64,589,782	\$65,746,297	\$66,733,436
<b>Surplus/(Deficit)</b>	(\$1,676,218)	(\$2,691,646)	(\$4,137,558)	(\$5,021,460)	(\$5,683,972)
<b>Cumulative Surplus/(Deficit)</b>	(\$1,676,218)	(\$4,367,864)	(\$8,505,422)	(\$13,526,882)	(\$19,210,854)



## **ATTACHMENT C: POTENTIAL DEFICIT REDUCTION ACTIONS**

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<b>Option Description</b>	<b>Financial Impact 2010 To 2015</b>
Freeze wages at current level	\$13,400,000
Hold health care cost to 5% annual increase	\$11,787,000
Freeze operations expense at current level	\$ 3,135,000
Double parking tax	\$ 3,550,000
Increase water rates by 20%/year	\$ 6,300,000
Increase sewerage rates by 20%/year	\$ 8,700,000
Double sanitation fees	\$13,000,000
Double parking violations fine schedule	\$ 7,200,000
Double public safety charges/fees	\$11,384,000
Double public works charges/fees	\$11,119,000
Double parks and recreation fees	\$ 714,000
Five furlough days/year	\$ 2,750,000
Increase property taxes 117% in 2011	\$94,000,000
County approves requested tipping fee increase for 2010	\$65,000,000
City sells parking facilities at previous offer	\$70,000,000

